CTIA
Building The Wireless Future
Cellular Telecommunications Industry Association

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Michael F. Altschul
Vice President/General Counsel

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

April 20, 1999

Ms. Magalie Roman Salas
Office of the Secretary
Federal Communications Commission
The Portals
445 Twelfth Street, SW
12th Street Lobby, TW-A325
Washington, DC 20554

Re: Written *Ex Parte* Presentation
CC Docket No. 94-102

Dear Ms. Salas:

On April 20, 1999, the Cellular Telecommunications Industry Association ("CTIA") was asked by Commission staff to provide information describing the various sales and distribution channels that market CMRS handsets to customers. In response to this request, CTIA provided the attached information, taken from the study, US Cellular 97 Marketplace, published by The Strategis Group, to Mr. Ron Netro, Senior Engineer, Policy Division, Wireless Telecommunications Bureau.

Pursuant to Section 1.1206 of the Commission's Rules, an original and one copy of this letter is being filed with your office. If you have any questions concerning this submission, please contact the undersigned at (202) 736-3248.

Sincerely,

Michael Altschul

cc: Mr. Ron Netro (w/att)

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US CELLULAR 97
MARKETPLACE

THE STRATEGIS GROUP

an [illegible] company

ratings. Cellular One, the name brand of many of the cellular nonwireline carriers had the fourth highest rating. This can be attributed to Cellular One's nationwide presence. The RBOCs and cable MSOs did not fare as well nationwide as the long-distance carriers and Cellular One, primarily because they do not have the out-of-region exposure.

6.2 Distribution Channels

Cellular telephone distribution channels have expanded considerably over the years. The expansion reflects carrier and manufacturer changes in distribution strategy and the increasing diversity of users.

6.2.1 Carriers

Direct sales from the carrier account for approximately 24 percent of all cellular sales. Direct carrier channels include carrier owned stores, telemarketing, direct mail, and carrier sales forces. Carriers have been trying to increase their share of distribution over the past few years in order to maintain closer relationships with customers. Carrier analysis has shown that subscribers acquired through carrier channels are less likely to churn and are higher usage customers. In addition, increased competition in other distribution channels will drive carriers to rely more heavily on their own resources.

6.2.2 Agents

Agents have traditionally been the most successful distribution channel for cellular services and products. In 1996, agents accounted for an estimated 25 percent of all cellular sales. As the average monthly revenue per subscriber declined, carriers have moved away from agents as their primary distribution channel in order to avoid high commission costs. In addition, as cellular further penetrates the population, a more diversified distribution mix will be necessary to reach all potential customers.

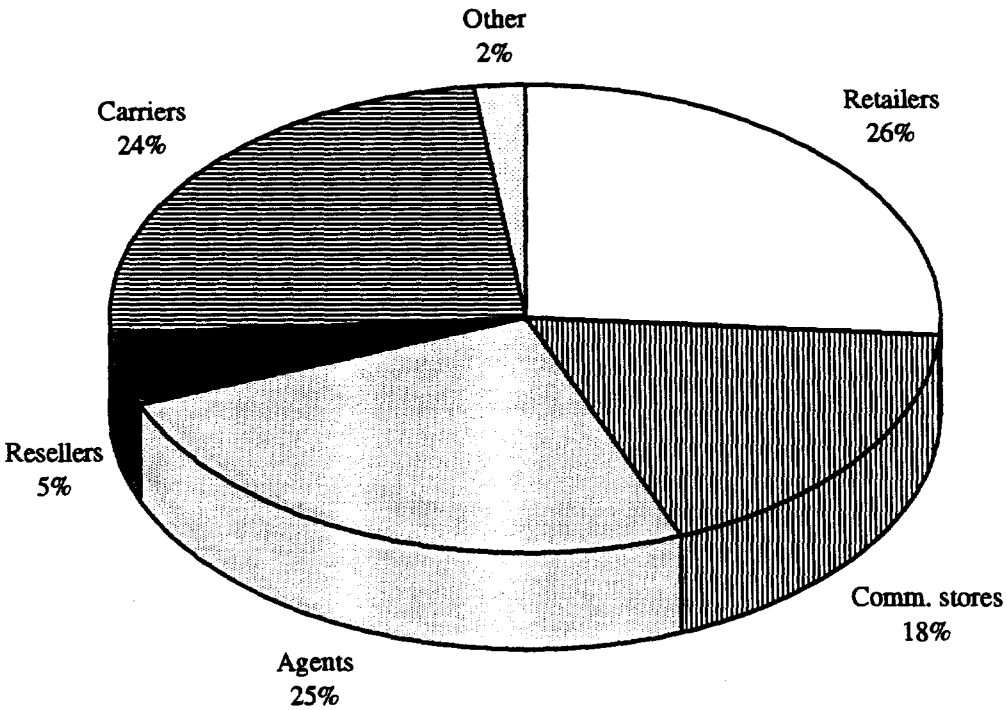
6.2.3 Communications Stores

Specialized communications stores accounted for approximately 18 percent of cellular distribution in 1996. These stores focus their products lines on cellular, paging, and other telecommunications products. It is expected that the distribution share of these stores will increase to nearly one-third by the turn of the century. A number of the larger communications stores, (Let's Talk Cellular, Call4, etc.) have recently become resellers of cellular service.

6.2.4 Retailers

Retailers represent an important element in distribution because of their high volume. At mid-year 1996, retailers accounted for approximately 26 percent of cellular distribution. Cellular carriers typically pay mass retailers higher commissions than smaller agents even though the

Figure 6.2 Cellular Distribution Marketshare, 1997



Source: The Strategis Group

quality of their customers is not as high. There at least nine distinct segments to the retail channel in the U.S. for cellular telephones and products:

- **Direct mail.** Represents a very small share of the cellular business. Examples include Fingerhut and American Express.

- **Department stores.** Includes stores such as Sears, Macy's, and J. C. Penny. With the exception of Sears, which has been involved with cellular from the beginning, department stores are not a major factor in cellular distribution.

- **Car stereo/consumer electronic dealers.** These distribution sources are usually independent, one or two store operations that may have car stereo as their primary business. Depending on the market, they can be a significant or limited cellular distributor.

- **Catalog showrooms.** Includes Best, Service Merchandise, and Brendles. This segment has been rapidly losing share and is starting to exit the cellular business.

- **Mass merchants.** Examples include Caldor, Target, Wal-Mart, and K-Mart. This segment has had a difficult time in the cellular business due to high churn rates among their subscriber base and the lowering or elimination of commissions from carriers.

- **Consumer electronic superstores.** Regional and nationwide examples are Circuit City, Silo, The Wiz, Luskins, P.C. Richards, and The Good Guys. This segment was the first to bring cellular into the retail environment and has helped drive strong cellular growth.

- **Office superstores.** Examples include Office Depot, Bizmart, and Staples. The market share of this segment is growing and customer demographics are a good fit for cellular sales.

- **Warehouse clubs.** Include Price Club, Costco, Pace, and Sam's. This segment is characterized by limited lines, high volume, and low prices.

- **Independent retail activators (in-store kiosks).** Companies such as U.S. Communications set up kiosks and other in-store counters in retail stores to market cellular products. U.S. Communications is the largest company in this segment, handling approximately 4,000 store locations in 1996.

6.2.5 Resellers

Resellers represent approximately 5 percent of cellular distribution. This share is expected to increase as various telecommunications providers begin reselling service in multiple markets in an attempt to offer bundled service to customers. Resellers should also be more accepted by cellular carriers as PCS competition increases the importance maintaining subscriber growth.